

What Governments can Do about Corporate Social Responsibility

Australian Centre for Corporate Social Responsibility Breakfast

July 25th, 2006

Victorian Arts Centre, Melbourne

**Senator Penny Wong
Shadow Minister for Corporate Governance and Responsibility**

Thank you to Leeora Black of the Australian Centre for Corporate Social Responsibility for inviting me to speak to you this morning.

Today's topic is 'what governments can do about corporate social responsibility' I want to begin by briefly addressing why governments need to advance corporate responsibility.

We all know how much our world has changed.

Developed and less developed economies alike now face significant natural resource constraints, increasing environmental damage, changing social demographics, intergenerational unemployment and ongoing poverty.

These issues affect Australian businesses operating both locally and internationally. Unless governments and businesses consider the negative external impacts of their activities, the costs of inaction will increasingly be borne by our natural environment and ever larger sectors of our society.

Australians are becoming more concerned about these risks and when thinking about powerful corporations are demanding that they consider the long term interests of communities as well as short term profits. These demands will only intensify.

For example, according to the brochure for today's session, 92% of employees believe their company should be responsible to the environment and society, but 64% of Australians think that company's have no morals. Business obviously needs to tackle a perceived gap between expectations and performance.

If businesses do not view these calls for change as an opportunity, in time their financial performance will suffer - not just because reputations will be harmed, but because their operations will be fundamentally out of step with regulatory regimes, consumer expectations and social and environmental needs. There is a clear imperative for businesses to constructively address their emerging non-financial risks now.

We should debunk the notion of economic progress which holds that social, environmental and economic objectives are inherently in conflict, even though there may be short term tensions between these goals.

Moreover, as people like you are becoming increasingly aware, we cannot assume that business-as-usual will meet our future challenges. We must begin to align social, environmental and economic interests, if we are to continue to prosper.

Gordon Brown, the Chancellor of the Exchequer, said to a meeting of United Nations Ambassadors in New York on April 19th this year,

For economies to flourish, for global poverty to be banished, for the well-being of the world's people to be enhanced - not just in this generation but in succeeding generations - we have a compelling and ever more urgent duty of stewardship to take care of the natural

environment and resources on which our economic activity and social fabric depends.

[...] the new synthesis we need is that economic growth, social justice and environmental care advance best when they all advance together.

Representatives from many of our leading companies are in this room this morning, and for your leading efforts on corporate responsibility and sustainability in Australia, you are to be congratulated.

But while recognising your progress, the capacity of Australian business to manage emerging non-financial risks, to innovate and to invest in the sustainable business opportunities of the future, clearly lags many of our trading partners.

Our common objective must be to build the capacity of Australian business to think and operate with the long term clearly in mind. It is for our common good that we make progress now, and it is the responsibility of governments to ensure this progress occurs. This is why Labor believes there is a clear role for government in advancing corporate responsibility and sustainability and this is why Labor initiated the parliamentary inquiry into corporate responsibility.

Governments too must take a long term view of their roles.

Genuine change in business culture and productive capacity takes time, just as it takes time for consumer expectations and behaviour to evolve, and as it takes time for investor expectations to evolve.

The objective of government must be to support a shift in business, consumer and investor behavior in a constructive way. To do so, government must work in cooperation with business and must focus on policy measures that will build capacity to change.

That is why Labor members did not support an expansion of the duties of company directors in the recent parliamentary inquiry. It is not Labor's desire to implement one size fits all regulatory solutions, but rather focus on the substantive progress to be made by business on sustainability challenges.

It is still appropriate for the primary concern of directors to be their *company's best interests* as long as environmental, social and governance issues are actively addressed in the process. The considered evidence from business leaders was that their current duties were wide enough to allow this.

It may be fair to say that this is a more enlightened sense of duty than has been the case previously from some in business. What is required now is a demonstration of this enlightened interpretation of duties by the business community generally.

With these considerations in mind, what can governments do about corporate responsibility?

First, government must clearly state its commitment to sustainable economic development and to the responsible contribution of business to this objective. This commitment must go beyond rhetoric and platitudes. It demands active policy responses across government.

Secondly, government must demonstrate sustainable, responsible operational activities. It is hypocritical for government to tell business, NGO's and consumers what they should do if the government's own agencies cannot pursue and transparently report sustainable operations. Clear sustainability targets and mandatory, transparent reporting are needed for federal government agencies.

Government must also better coordinate policy development and ensure that a business oriented government department has primary carriage of corporate responsibility initiatives. This is essential to ensure that corporate responsibility initiatives move beyond a primary focus on company philanthropy.

Government must actively engage with, support and resource businesses to deeply integrate sustainable approaches to their operations. There is a need for a stronger business led network on sustainability issues, more best-practice information for companies to draw on and a clearer path for businesses to address long term and non-financial risks for the first time.

Critically, Government and business must better engage the investment sector and investors on non-financial risk and sustainability challenges. As a key leverage point for change, more thorough analysis of the emerging non-financial risks for companies is necessary so that investors can appropriately reward long term thinking by companies.

Put simply, we need to ensure companies are providing comparable data about their non-financial performance. This is the first step towards investors valuing a company's management of its impacts on environment and community.

Fund managers, analysts and investors must be able to make informed decisions about non-financial risk. That is why Labor recommended a flexible mandatory minimum of non-financial reporting by all large companies, both public and private, in its supplementary report from the parliamentary inquiry.

Beyond all of these corporate responsibility initiatives, if progress by business and the community is too slow, governments must be prepared to set clear policies dealing with specific sustainability challenges as they become more acute.

Climate change is an obvious example. Many sectors of the business community are saying they need a clearer policy framework addressing the threat of climate change in the short term. We should not assume that all business wants to avoid immediate progress on climate change. Many leading business are seeking a clearer policy regime from the federal government, and want it now.

For example, Australia's Business Roundtable on Climate Change, incorporating a number of our leading companies and the Australian Conservation Foundation, recently called for Australian Governments to show greater policy leadership on climate change. They said:

'We ask Australian governments to work together, [...] to develop nationally consistent climate change policies, supported by all jurisdictions. This approach will ensure that Australia has an economically and environmentally effective national response and provides the necessary certainty for investors. [...] the longer we delay acting, the more expensive [*responses to climate change*] become for business and for the wider Australian economy.

Governments must be prepared to listen to significant sections of the business community and respond accordingly.

Should a federal government provide strategic direction and actively engage with business on corporate responsibility, it would need to take into account the initiatives of other level of government.

Many state and local governments have demonstrated that they are well ahead of the Howard Government in terms of their understanding the need for a strong response to sustainability challenges.

Victoria's own 10% renewable energy target, announced by Premier Bracks last week is a good example of a state based initiative that is well ahead of federal initiatives. State cooperation on an initiative to establish a national emissions trading scheme is another good example of this.

The Federal government is behind the game on sustainability and corporate responsibility, and it would be necessary for a more active federal government to carefully audit and learn from the states activities. Federal Labor is alive to this need.

The states will no doubt continue to innovate and develop new initiatives to manage sustainability challenges. Policy progress on corporate responsibility and sustainability is critical and needed now, and the current Federal government is yet to demonstrate a commitment to engage on these issues.

There is much that government can do about corporate responsibility.

Labor believes that government must set a clear strategic direction on the importance of sustainable development and actively engage with business to advance corporate responsibility.

By building the capacity of businesses to address long term, non-financial risks we have the best possible chance to constructively address sustainability challenges as they emerge. As a result, we also have the best chance to develop competitive business enterprises for the future.

Federal Government must better coordinate corporate responsibility policy and give it a business focus, must demonstrate a greater commitment to its own sustainable operations, must actively engage with investors and the financial sector and must ensure that company stakeholders have adequate access to transparent, non-financial performance information.

Labor will continue to engage with business on corporate responsibility, because sustainable prosperity is in the interests of all Australians.